

INDUSTRIAL AND TRADE CONDITIONS

*Speech Delivered Before
American Bankers Association Convention
New York, October 4, 1922*

By FRED I. KENT

VICE-PRESIDENT, BANKERS TRUST COMPANY, NEW YORK
CHAIRMAN, COMMISSION ON COMMERCE AND MARINE A. B. A.

*Reprinted from
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION
November, 1922*

Compliments
BANKERS TRUST COMPANY
NEW YORK

INDUSTRIAL AND TRADE CONDITIONS

Digitized by the Internet Archive
in 2014

<https://archive.org/details/industrialtradec00kent>

Industrial and Trade Conditions

By FRED I. KENT

Chairman, Commission on Commerce and Marine

THE people of the United States of America from time to time are going to be obliged to render decisions through their government upon many phases of the great problems which confront the world today. If proper judgment is to be exercised, it is going to be necessary for the people to be able to follow contemporaneous economic history with more or less intelligence.

The bankers in the country will naturally be called upon in the future, as they have been in the past, to explain and interpret values of various economic phenomena because the nature of their business naturally fits them to understand such matters more readily than the average of the public mind. With the hope of being able to place before bankers a picture of the general world conditions as they exist today, the Commerce and Marine Commission of the American Bankers Association, in cooperation with the National Industrial Conference Board, has had a series of charts prepared covering some of the principal economic movements which show the reason for the difficulties which now stand in the way of rational living in many countries and normal trade and commerce throughout the world.

Money Cost of World War

The first chart, "Money Cost of World War," is based on the table on page 11 of French Public Finance which was quoted by Lloyd George in his speech at the Conference of Finance Ministers held in London on August 7, 1922, where the estimated costs of the war expressed in dollars at par of exchange for foreign currencies is placed at \$223,471 million pro-rated among the different nations as follows:

COST OF THE WAR, 1914-1919			At par of Currencies
To Entente Allies		Currencies	\$
France	37,588		
Italy	14,794		
Russia	20,500		
United Kingdom	48,944		
United States	33,456		
Other active participants	8,500		
Total	163,782		
Deduct Inter-Allied Loans	23,658		
Net Total	140,124		

To Central Powers

Germany	49,362
All other	33,985
Total	83,347
Grand Total	223,471

The chart is prepared from these figures, but after they have been reduced to a pre-war basis by dividing the cost for each country for each year of the war by the wholesale price index number based on 1913 as 100 per cent. The gold or pre-war cost of the war thus arrived at is \$84,045,000,000. Divided between the two war parties it shows that the

cost to the Allied powers was \$53,883,-000,000 and to the Central powers \$30,-162,000,000. The chart also shows how these costs were divided among the powers including the amounts which each advanced in loans to other nations.

Of the Allies, the expenditures of the United Kingdom at par of currencies and also on the gold basis come first in total amount.

The United States stands second in actual expenditure, but in per capita expenditure she comes third.

If the Inter-Allied loans were all paid the war would have cost the United Kingdom the largest sum, France next and the United States third.

The war cost the Entente Allies and the United States nearly 79 per cent. more than it cost the Central Powers, although the Central Powers expended more per capita, \$215 as against \$112, while the Central Powers also expended a larger part of their pre-war wealth, 25½ per cent. as against just a shade over 12 per cent. for the Allied Powers.

This cost does not include the property losses of France or other countries, nor the losses to England on account of her merchant shipping, due chiefly to German submarines, which latter amounted on the 1913 price basis to \$1,300,000,000.

The total figures representing the cost of the war, \$84,000,000,000, carry very little meaning in themselves because they are so huge. Reduced to terms of the total exports of the United States, this amount represents our trade for the past 37 years, and in terms of the total world trade figured one way based on the figures of 1913, it represents the entire world commerce for four full years. It must be borne in mind that these figures

of total trade cover full values and not profits, and it is only from profits that savings can be made with which the indebtedness incurred by the war can be extinguished. Some of these expenditures were met by taxes as the war went on as will be shown in another chart. This brings us naturally to a consideration of the Inter-Allied indebtedness due to the war.

Chart 2—Inter-Allied Indebtedness

Chart 2 has been prepared to show the interlacing of the Inter-Allied Debts.

These debts aggregate at par of exchange about \$25,000,000,000. Forty-five per cent. of this amount is due to the United States; about 39 per cent. is due to the United Kingdom; about 12 per cent. is due to France and about 4 per cent. is due to other nations. The United States and Great Britain are net creditors while France, Italy, Russia and Belgium are net debtors. The greatest debt of France is to the United States, although she owes Great Britain three-fourths as much. Her indebtedness to other nations has been materially reduced since the Armistice. Practically all of the indebtedness of the United Kingdom is to the United States and she has also largely paid down her indebtedness to other nations. Italy owes the most to Great Britain and about three-fourths as much to the United States and a comparatively small amount to France and other nations. The indebtedness of Russia is in great part to Great Britain although she owes France about one-third as much.

In the table is included accrued unpaid interest due to the United States

Inter-Nation Indebtedness in 1922, Due to the War of 1914-1918

Converted Into Dollars at Exchange Parities

(In dollars—000,000 omitted)

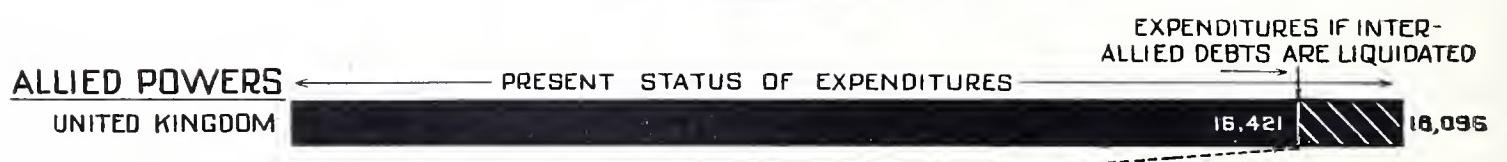
Due From	France	United Kingdom	Italy	Russia	Belgium	United Kingdom Dominions	Other Nations	Total
To								
UNITED STATES								
Direct Loans.....	2,934	4,136	1,648	188	347	...	133	9,386
Surplus War Supplies.....	407	....	....	5	30	...	138	575
Relief.....	....	....	....	....	....	...	79	84
Grain Corporation.....	....	....	....	....	....	...	57	57
TOTAL PRINCIPAL.....	3,341	4,136	1,648	193	377	...	407	10,102
Interest Accrued.....	430	611	243	35	51	...	53	1,423
TOTAL.....	3,771	4,747	1,891	228	428	...	460	11,525
UNITED KINGDOM								
Direct Loans.....	2,844	....	2,450	3,190	44	732	462	9,722
Relief.....	....	....	....	....	....	...	103	103
TOTAL PRINCIPAL.....	2,844	....	2,450	3,190	44	732	565	9,825
FRANCE.....	...	....	186	1,092	737	...	1,107	3,122
OTHER NATIONS.....	252	522	34	....	....	...	....	808
GRAND TOTAL.....	6,867	5,269	4,561	4,510	1,209	732	2,132	25,280

MONEY COST OF WORLD WAR -ADJUSTED BY COUNTRIES - 1914-1919 1913 PRICE BASIS

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
NEW YORK CITY

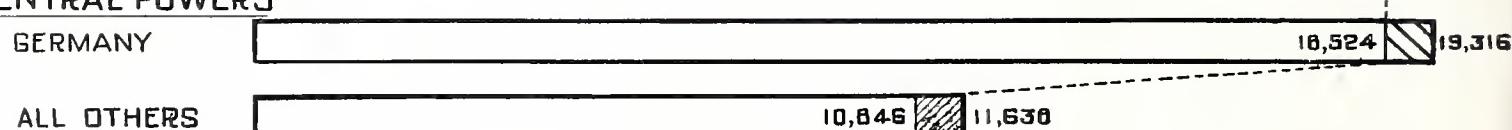
(FIGURES IN MILLIONS OF DOLLARS)

TOTAL EXPENDITURES - \$84,045



NET CREDITS
NET DEBITS

CENTRAL POWERS



(SOURCE: BANKERS TRUST COMPANY)

INTER-ALLIED INDEBTEDNESS DUE TO WORLD WAR

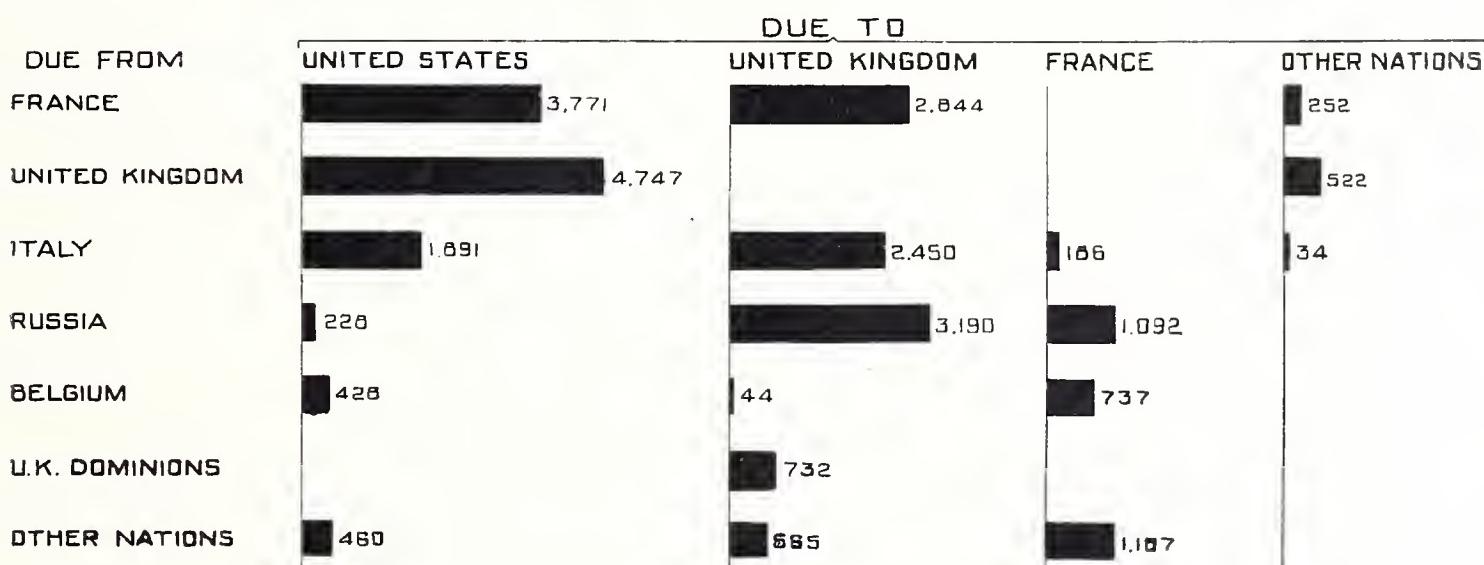
WITH ACCRUED INTEREST APPROXIMATED

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
NEW YORK CITY

(FIGURES IN MILLIONS OF DOLLARS
CONVERTED AT PAR OF EXCHANGE)

	<u>DEBITS</u>	<u>CREDITS</u>	
UNITED STATES			11,525 - NET
UNITED KINGDOM	5,269	4,556 - NET	9,825
FRANCE	6,867	3,745 - NET	3,122
ITALY	4,561	4,561 - NET	
RUSSIA	4,510	4,510 - NET	
BELGIUM	1,209	1,209 NET	
U.K. DOMINIONS		732 NET	
OTHER NATIONS	2,132	1,324 NET	808
	TOTAL DEBITS - \$25,260	TOTAL CREDITS - \$25,260	

NOTE:
INDEBTEDNESS OF "OTHER NATIONS" EMBRACES
TRANSACTIONS WITH UNITED STATES, UNITED KINGDOM
AND FRANCE ONLY.
OFFICIAL DATA, IN SOME CASES, PRESUMED
TO INCLUDE ACCRUED INTEREST; IN OTHERS, AS IN
THE UNITED STATES, INTEREST IS ACCRUED TO THE
END OF THE LATEST FISCAL YEAR.



(SOURCE: BANKERS TRUST COMPANY)

amounting to \$1,423,000,000. The figures of interest for other countries are not separately given in their statements.

Annual Interest Payments Required for Inter-Allied Debts

Estimated at 5 per cent. the total amount required to pay interest on Inter-Allied debts would be \$1,190,000,000. Of this amount there would be due to

United States.....	\$505 million
United Kingdom.....	490 "
France.....	155 "
Other Nations.....	40 "

and due from

	Involving an Increased Annual Burden of Say:
France.....	\$320 million 10%
United Kingdom...	230 " 7%
Italy.....	215 " 20%
Russia.....	225 "
Belgium.....	60 " 11%
U. K. Dominions..	36 "
Other Nations....	104 "

In spite of the controversies which have been carried on in connection with the Inter-Allied indebtedness, there would seem to be no question but that there is the will to pay on the part of the principal nations concerned which carries with it more force than is popularly supposed to be true. On the other hand, even where there is the will to pay, a strong feeling exists that actual payment will be extremely difficult for all nations involved and that it will delay the satisfactory working out of the present complex economic situation. It is admitted by all sound thinkers that there should be no repudiation of the Inter-Allied loans, but there is a growing feeling on the part of many that there should be a cancellation of the loans in such part as the war conditions, under which they were spent, would justify.

There are only a few ways in which a nation can pay or obtain foreign exchange with which to pay a foreign debt. These may be summarized as follows:

1. The surplus of the value of exported goods over imported goods.
2. The sale to foreigners of foreign securities (bonds and shares) already owned in the debtor country.
3. The sale of jewelry, works of art or other property, bank balances, etc., held abroad by citizens of the debtor state.
4. The sale to citizens of foreign states, against foreign credits, of irrevocable property of any kind—real, personal or mixed—held within the debtor state.
5. The sale of bank notes, state currency or state or municipal or corporate securities of the debtor state in foreign countries.
6. Freight or passage money paid by foreign countries for transportation in the ships of the debtor country.
7. Net insurance premiums or foreign exchange profits from any other services extended the nationals of foreign countries, including expenditures of tourists.
8. Exchange created by remittances from foreign countries to the nationals of the debtor country.
9. The delivery of goods created (grown, produced, manufactured, etc.) within the debtor country to the creditor country against merely a book credit.
10. The creation of public or private works within the creditor country by nationals of the debtor country supported by the debtor country, against book credit by the creditor country.
11. By shipment of precious metals.

From a study of these items in connection with the foreign trade of the nations concerned in the Inter-Allied indebtedness, together with the various services

which they ordinarily are able to render the nations of other countries, it is easily seen that if full payment of all the Inter-Allied indebtedness is to be demanded, we may find that we are asking the impossible, which, if true, will tend to hold back the economic recovery of all nations for an indefinite period.

The Swiss delegates at the Genoa Conference said:

"There is no hope of restoring the currencies and re-establishing the economic well-being of Europe until the problem of international debts has been boldly faced. • • • One country alone is purely a creditor, namely the United States of America. The majority are both creditors and debtors. Taking into account the reparation debt so far as payments have been made, certain countries have balances in their favor while others have a debit balance. The most heavily charged country is Germany. Many American financiers and business men have realized that if America is again to find in Europe a customer with whom she may effect exchanges on a broad basis, as in the past, the European financial situation will have to be stabilized. This process would be greatly facilitated and accelerated by the reduction or by the complete remittance of the debt owed to the United States by her war associates."

The Swiss seem to have struck the keynote of the whole situation in the above sentence, "If America is again to find in Europe a customer with whom she may effect exchanges on a broad basis as in the past, the European financial situation will have to be stabilized."

U. S. Debt Refunding Commission

The Debt Refunding Bill was signed by the President February 10, 1922. The bill provides as follows:

"Subject to the approval of the President, the Commission is authorized to refund or convert and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign government now held by the United States or any obligation of any foreign government hereafter received by the United States (including obligations held by the United States Grain Corporation, the War Department, the Navy Department, or the American Relief Administration) arising out of the World War into bonds or other obligations of such foreign governments in substitution for the coupons or other obligations of such government now or hereafter held by the United States in such form and of such terms, conditions, date or dates of maturity and rate or rates of interest and with such security, if any, as shall be deemed for the best interests of the United States; provided, that nothing contained in this Act shall be considered to authorize or empower the Commission to extend the time of maturity of any such bonds or other obligations due to the United States by any foreign government beyond June 15, 1947, or to fix the rate of interest at less than 4½ per cent. per annum; provided further, that when the bond or other obligation of any such government has been refunded or converted as herein provided, the authority of the Commission over such refunded converted bonds or other obligation shall cease."

The authority of the Commissioners ends at three years from the date of the passage of the act, that is, on February 10, 1925. The members of the Commission are Secretary of the Treasury Mellon, who serves as chairman; Secretary of State Hughes, Secretary of Commerce Hoover, Senator Reed Smoot of Utah. Representative Theodore E. Burton of Ohio.

Reparations

This leads up naturally to the question of reparation payments, which, after all, represent nothing but governmental indebtedness. Without analysis, the possible desirability of cancellation of the

indebtedness of Germany for reparations might seem to apply with the same force as in connection with the Inter-Allied indebtedness. Actually, however, they do not apply because the loss and suffering caused by the devastation wrought by Germany must be borne either by the Allied nations, where the devastation occurred, or by the people of Germany. Cancellation of all reparation payments would merely transfer the loss and suffering caused by the devastation from the German people to the French people and other Allies. If the devastation wrought by Germany could be fully restored through the wave of a magic wand, the world would be better off if all reparation payments were cancelled, except such as might be said to represent a proper penalty for wanton destruction. Unfortunately, the conditions are such that the cost of the devastation must be met either by Germany or by the Allied countries in which it occurred, and, as between the two, under the circumstances, there is only one choice and Germany must pay. Admitting this, the next element that enters into the situation is the question as to how much Germany can pay, and regardless of any desires which may exist as to what amount should be paid, there is unquestionably some certain point beyond which payment is an impossibility. It must be admitted that it is difficult or impossible for the Allies to ascertain what this figure may be while Germany is in her present chaotic position.

The morale of all the peoples of Europe, and it might be said of the world, is so broken from the war strain that there is a natural disposition in every country to feel that every other country is wrong in its attitude. This condition can only be corrected as greater sincerity is introduced in the negotiations between nations and politics are thrown into the background.

Chart 3—Reparations—Amounts Claimed and Allotted

The chart (No. 3) headed "German Reparations" shows in the first column the claims filed with the Reparation Commission by the various nations; and in the second column the gross amount allotted by the Commission, pro-rated as per the Spa Agreement.

It is important in considering the question of reparations clearly to bear in mind the fact that they do not include reimbursement for the costs of the war.

By the terms of the Treaty of Peace signed at Versailles on June 28, 1919, Germany was obligated to make reparation as follows:

To civilians for damages to person or property due to all operations of war by the two groups of belligerents wherever arising, to be compensated for in full.

To prisoners of war for maltreatment and to allied governments for cost of assistance to prisoners of war and dependents.

To members of the armed forces, victims of war and to their dependents, pensions capitalized on the basis of the French army scale.

To families and dependents of mobilized persons—separation allowances, the amount for each year to be capitalized on the basis of the French army scale.

In addition to reparation payments proper, Germany is obliged to pay:

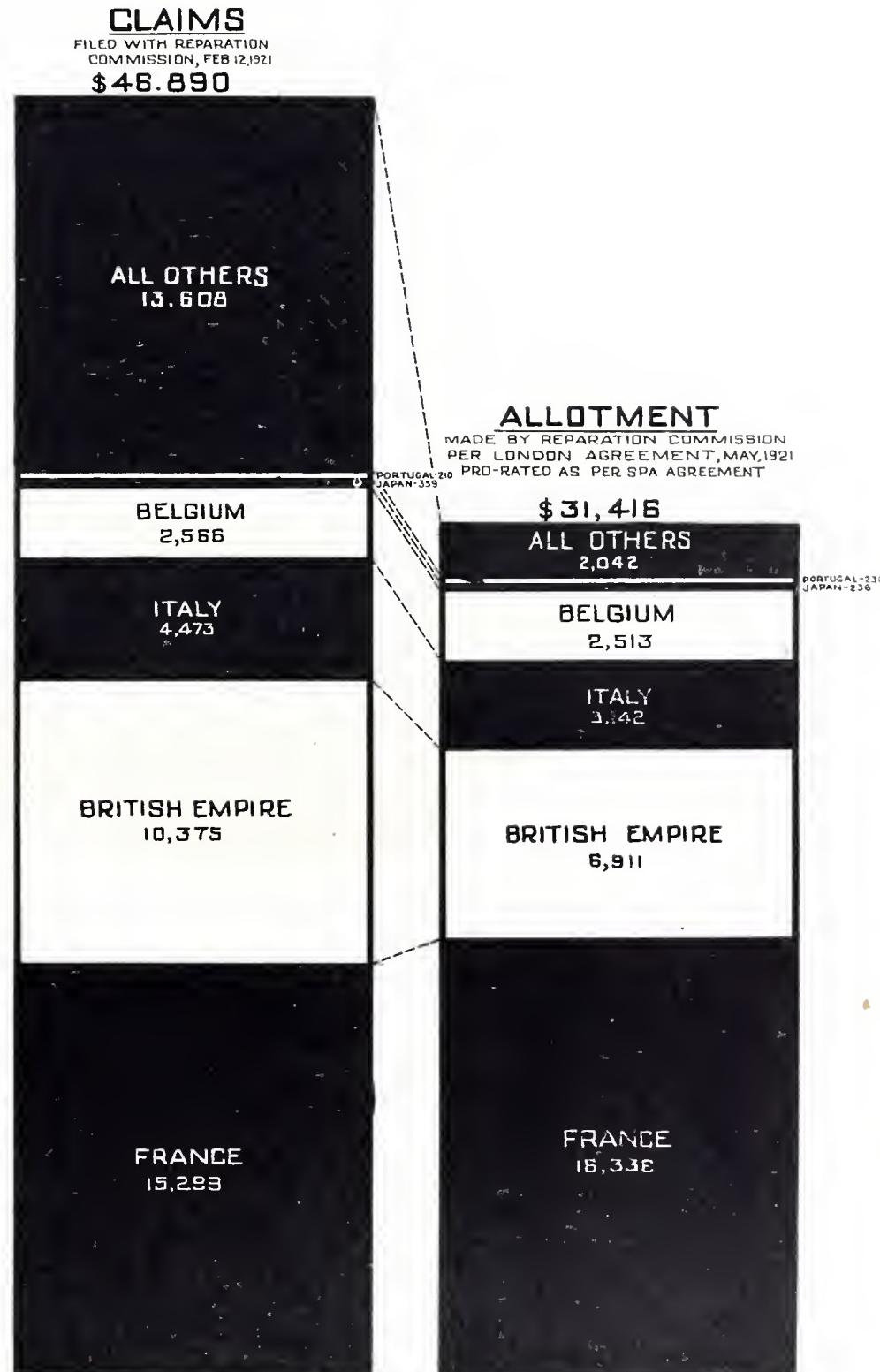
All costs under the armistice and treaty.

GERMAN REPARATIONS

TOTAL AMOUNTS CLAIMED AND ALLOTTED

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
 NEW YORK CITY

(FIGURES IN MILLIONS OF DOLLARS - CONVERTED FROM GOLD MARKS AT PAR OF EXCHANGE)



GERMANY'S OBLIGATIONS UNDER PEACE TREATY - ARMISTICE TO DEC. 31, 1922

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
NEW YORK CITY

(FIGURES IN MILLIONS OF DOLLARS)
CONVERTED AT PAR OF EXCHANGE

TOTAL DUE - \$3,199



DUE FOR ADVANCES BY
ALLIED NATIONS
\$1,024

FOR PURCHASE OF FOOD AND RAW MATERIALS
\$ 905

TO SECURE
COAL
\$ 95
COST OF INTER-ALLIED
COMMISSION
26

COST OF ARMIES OF
OCCUPATION
\$1,104

UNITED KINGDOM, BELGIUM AND FRANCE
\$593

COST OF CANTON
MENTS - \$257

UNITED STATES
\$254

ON ACCOUNT OF
REPARATIONS
\$1,071

PAID
\$414

PAYABLE BY DEC. 31, 1922
\$395

DEFERRED
\$262

STATE PROPERTIES IN
CEDED TERRITORIES

UNREALIZED
\$596 (EST)

(SOURCE . BANKERS TRUST COMPANY)

For food and raw materials furnished by the Allies.
For costs of the Army of Occupation.
These payments to be a charge prior to that for reparation.

Reparations fall under three heads:
First: Restitution of objects removed but still in being.

Second: Reparation in kind for property destroyed.

Third: Financial restitution. (This last is the form of restitution generally spoken of as "reparations.")

The determination of the amount of the cash payment to be made was deferred to May 1, 1921, and was devolved upon the Reparation Commission, except that Germany was required before that date to pay 20 billion gold marks, to be credited against the amount finally assessed.

On February 12, 1921, the allied powers claiming reparations, filed claims with the Reparation Commission aggregating about 197 billion gold marks (\$46,890,000,000).

In June, 1920, representatives of the allied powers met at Spa and agreed upon a percentage basis for the distribution of the gross amount to be assessed against Germany by the Reparation Commission. These percentages were as follows:

France, 52 per cent.
British Empire, 22 per cent.
Italy, 10 per cent.
Belgium, 8 per cent.
Japan, 3/4 per cent.
Portugal, 3/4 per cent.
All others, 6 1/2 per cent.

On May 6, 1921, the Reparation Commission assessed the total amount to be paid at 132 billion gold marks (\$31,416,000,000). When the percentages allowed the Allies in the Spa Agreement were applied to the reduced total of reparations finally demanded from Germany, it resulted in an increase of 1/15 to the amount to be paid France, a decrease of 5/15 to Great Britain, a decrease of 4/15 to Italy and a decrease of over 5/6 of the original claims of all others. It must be borne in mind that these figures are only approximate as they had to be converted at varying exchange rates, but they show the situation in principle.

Chart 4—Germany's Obligations and Payments, 1918-1922

The chart (No. 4) headed "Germany's Obligations Under the Peace Treaty from Armistice to December 31, 1922" shows (a) the amounts required to reimburse advances made by the Allies, (b) the amounts chargeable to Germany account of the armies of occupation, and (c) the amount required to meet the charge for interest and sinking fund on the reparation bonds for the last six months of 1921 and for the year 1922. The chart shows the amounts due under each head, the amounts paid, the amounts unpaid and the amounts deferred by permission of the Reparation Commission. There is also shown for the record the estimated but as yet unrealized value of former German state properties in ceded territories for which the new owners are obligated to account to the Reparation Commission, amounts finally received will be credited to Germany on reparation account.

The chart shows that out of the \$3,199,000,000 due to December 31, 1922, \$2,288,000,000 has been paid and the purposes to which such payments were put. The largest amount paid went for food and materials which had been advanced by the allied nations. Then comes the cost of the armies of occupation for which payments have been made amounting to \$850,000,000 and there is still due on this account \$254,000,000 to the United States. Only \$414,000,000 is available for rehabilitation and the application of all of the sums for that purpose is doubtful.

There will be no more cash payments this year, the Reparation Commission having indefinitely deferred the payment of 830,000,000 gold marks (\$197,000,000) while the payment of a further 270,000,000 gold marks (\$64,000,000) on which Belgium has a prior claim has been deferred for six months—to February or March, 1923. As to this latter amount, it is understood that Belgium will be paid at the end of the six months, but that Germany has arranged with the Reichsbank, the Bank of England and a Dutch bank to advance the amount against her notes, payable in eighteen months, the foreign banks to be secured by ear-marked Reichsbank gold.

There is still due on 1922 account payable in goods, the sum of 1,512 million gold marks, less any payments in goods which may already have been made this year but not made public.

Finally the Reparation Commission has the already mentioned claim against the nations which received physical additions from territory formerly belonging to Germany for the value of the state properties in these territories. These properties are very roughly estimated to have a realizable value of 2,504 million gold marks (\$596 million).

While the rebuilding of the devastated regions should be carried out at the expense of Germany, yet every effort possible should be made to reduce the total payments which Germany must make. The costs of the armies of occupation are tremendous and much saving should be made in this item. If a new and final plan should be agreed upon for the payment of reparations on basis possible to meet under conditions as they actually exist, and Germany accepted such plan with full intent to pay, there is reason to believe that the cost of the armies of occupation might be rapidly reduced and finally eliminated.

Consideration of the cost of the war, the Inter-Allied indebtedness and the German reparations leads up to the vital question of the taxation which is necessary to meet that part of the cost of the war which still remains unpaid and which is shown in the internal and external obligations of the governments involved.

Chart 5—Taxation—United States

The first chart (No. 5) on taxation shows the growth of taxation in the United States from 1913 to 1920 and also the proportionate growth of the Federal state and local taxes. It will be noted that the increase in Federal taxation due to the war was almost immediately followed by an increase in state and local

taxes. Such increase was caused partly by the higher cost of living and partly from the psychological effect of huge Federal expenditures which naturally induced state and local governments to increase their budgets beyond what was actually necessary and without objection on the part of the people because spending had become rife throughout the country.

Before the war, taxes levied by the national, state and local governments amounted to \$2,229 million in which the Federal government figured to the extent of 30.6 per cent.; by 1919-1920 the national tax bill had grown to \$8,918 million, with 64.3 per cent. of Federal origin. In 1920-1921 the total tax burden fell to \$8,489 million due to the decline of the Federal revenues; state and local burdens showed, however an increase of 28.8 per cent. over the preceding year. This expansion in state and local expenditures constitutes a very real danger against which this country must be on its guard.

Chart 6—Taxes and National Income Per Capita—United States

The next chart (No. 6) shows taxation in relation to national income also in the United States. The variations in both the national income and total taxation are on a per capita basis and cover the period from the beginning of the World War. While the national income has been growing, the tax burden has increased much more rapidly, with the result that in the latest year taxes (national, state and local combined) represented 14.7 per cent. of the national income as compared with 6.4 per cent. in 1913-1914. In view of the fact that the bulk of governmental expenditures paid out of taxes constitute a diversion of national funds into unproductive channels—such as the maintenance of the military and naval establishments, interest on the war debt, pensions, soldiers' relief, etc.—the situation thereby created is a serious one from the standpoint of national welfare, although in so far as pensions and relief for soldiers are concerned, it is an expense that the nation willingly bears.

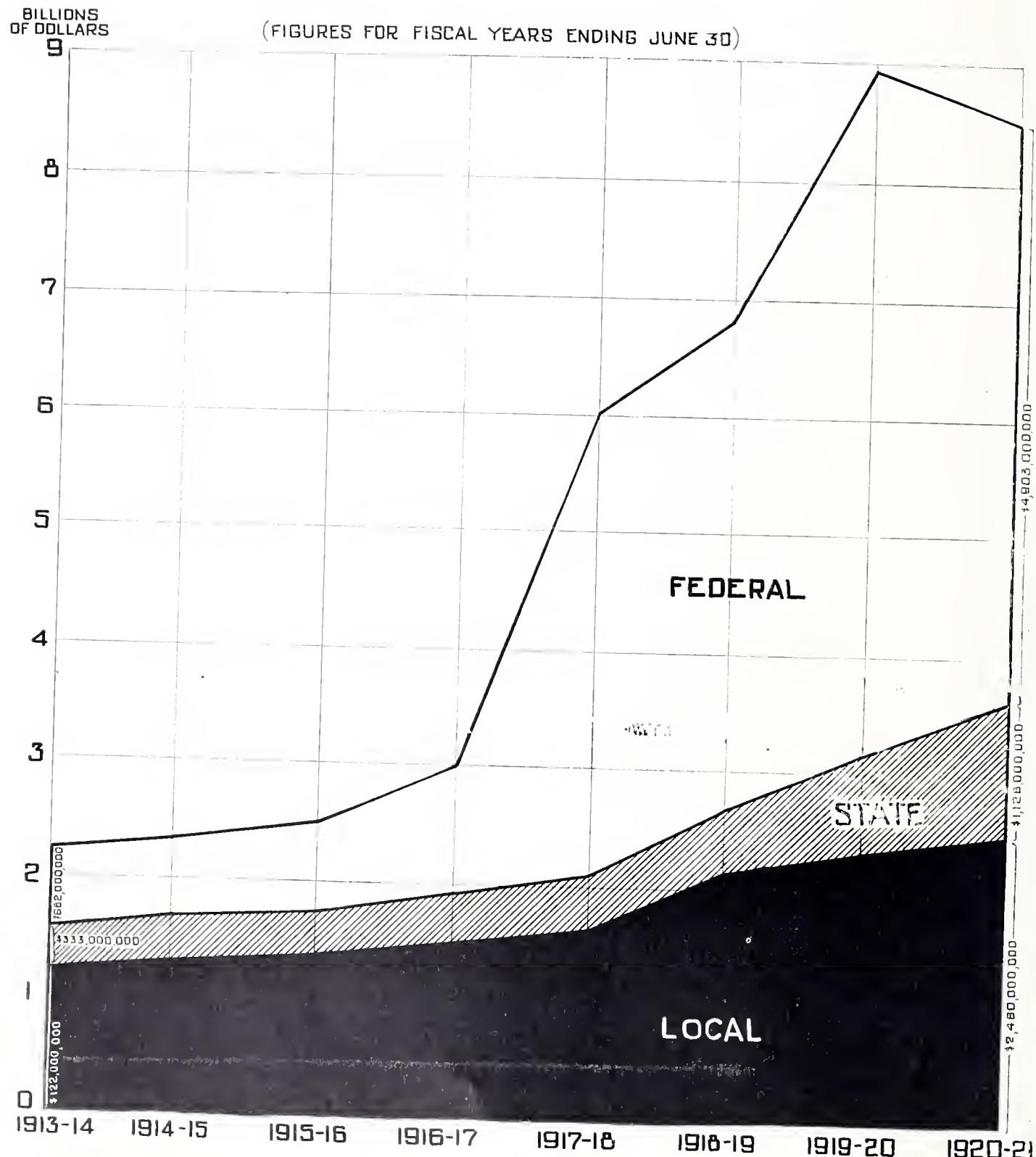
The value to the United States of the President's veto of the bonus bill is clearly shown in this chart.

Chart 7—United States, United Kingdom, France and Germany—Government Expenditures

The expenditures for which taxation has already been raised or must be levied in the future are given in the next chart covering the United States, the United Kingdom, France and Germany. The chart (Chart 7) on national indebtedness shows the part of these expenditures which still remains to be paid. The increase in the proportion of the total expenditures made necessary by the war loans shown in the "debt charge" (that is interest on the public debt) which in all four countries practically equals the present government expenditures for civil purposes, is a real object lesson in the viciousness of excessive government borrowing and the way it increases taxation. It will be noted that the present "debt charge" in all

TAXATION - UNITED STATES FEDERAL, STATE AND LOCAL

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
NEW YORK CITY



October, 1922

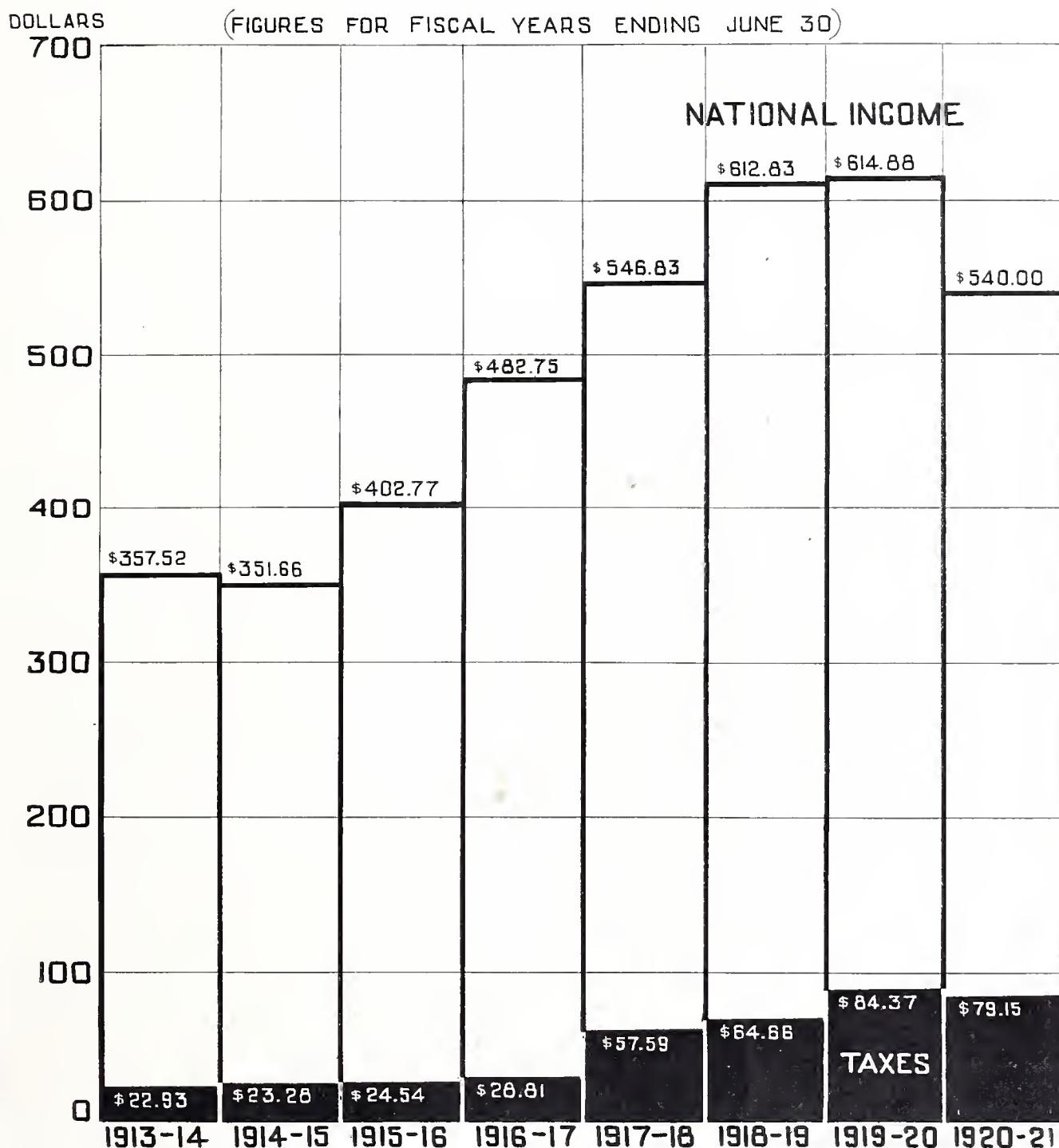
(SOURCE : NATIONAL INDUSTRIAL CONFERENCE BOARD)

TAXES AND NATIONAL INCOME PER CAPITA

UNITED STATES

FEDERAL, STATE AND LOCAL TAXES

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
 NEW YORK CITY



(SOURCES: TAXES-NATIONAL INDUSTRIAL CONFERENCE BOARD
 INCOME-NATIONAL BUREAU OF ECONOMIC RESEARCH)

four countries is more than double the civil expense before the war. The expenditures of France for reconstruction, which she hopes to recover from Germany, have also nearly equaled her civil expenditures. One exceptionally unfortunate phase of the German expenditures lies in the fact that the amounts expended under the Peace Treaty, as shown in the chart, have so far accomplished practically nothing toward meeting the costs of the reconstruction in the devastated regions, but have gone in such large part toward meeting the costs of the armies of occupation.

Chart 8—United States, United Kingdom, France and Germany—Government Receipts

These total expenditures by the four governments were met with funds obtained from loans and revenue, the relations between which are shown in the chart (No. 8) on governmental receipts which also covers the United States, Great Britain, France and Germany. It will be seen that promptly after entering the war the United States increased its taxation in tremendous percentage in addition to the huge amounts which it borrowed. The total revenue of Great Britain was raised every year from the opening of the war and its borrowing peak was reached during the war. In contrast to the action of Great Britain, it will be seen that both France and Germany obtained their funds to carry on the war entirely from borrowing, as their revenue decreased after the declaration of war. Since the Armistice, the revenue in France received from taxation, based on 1913 prices, has been increasing annually in large percentages, whereas in Germany, it has remained practically stationary. In both the United States and Great Britain there has been a reduction of the national debt and revenue has overtaken borrowing, whereas in both France and Germany borrowing still continues and in large percentage through increases in the floating debts.

While there is no question but that the methods pursued by the United States and Great Britain in filling their war chests were vastly better for these nations than the methods of France and Germany, yet it must be borne in mind that war is no respecter of economics and that practically throughout the war there were in the hands of the enemy 6,000 square miles of the north of France from which normally large amounts of taxes could have been obtained. Before the war there came from this section 74 per cent. of the coal mined in France and 92 per cent. of the iron ore and there was manufactured 81 per cent. of the iron, 60 per cent. of the steel, 80 per cent. of the woolen goods and 70 per cent. of the cotton goods produced in France.

Chart 9—World Foreign Trade of Twenty Countries

As the difficulties of carrying on foreign trade that have developed since the war have played such a tremendous part in the economic troubles of Europe and as such troubles must be worked out

largely through the re-establishment of a natural trade between the countries, no study of the present world economic situation can give a clear idea of the problems involved without a study of foreign trade. A chart (No. 9) has, therefore, been prepared of the world's foreign trade covering twenty countries.

In 1913 the aggregate value of international trade as reported by the United States Department of Commerce was approximately \$41,392 million, of which the imports were valued at \$21,540 million and the exports at \$19,852 million, the difference being due to the C. I. F. valuation of imports and their stricter control. For the years 1920 and 1921 complete data are available for twenty countries, the combined trade of which in 1913 was valued at \$31,593 million, representing 76.3 per cent. of the total world trade. In 1920 the trade of these twenty countries reached a value of \$55,718 million, an increase of 70 per cent. over 1913. In 1921, it declined to \$31,634 million or approximately to its pre-war value. The figures of trade for the first two or three months of 1922 show that the world is still suffering from the effects of the war.

A comparison by value shows that international trade in 1921 was about the same as in 1913. Not all countries register the weight of goods imported and exported. However, the figures available for some of the leading countries appear to warrant the conclusion that the physical volume of trade in each of the two post-war years shown was only slightly larger than one-half the volume of trade in 1913 and that the increase of 1921 over 1920 was insignificant.

As stated by the Department of Commerce: "The present conditions are still abnormal, being still under the shadow of the World War. A return to normal can hardly be expected until Europe has recovered, and the recovery will probably be slow. During the years from 1910 to 1913 Europe furnished on the average 49.6 per cent., or nearly one-half, of the United States imports, and took 61.7 per cent., or more than three-fifths, of the United States exports. These figures do not adequately express the importance of Europe to our foreign trade, for by taking 60 per cent. of the exports of all other countries Europe enabled those countries to purchase in our own markets. In 1920 our trade with our North American neighbors and with the Far East increased relatively much more than our trade with Europe, and the share of Europe in our trade declined, although it has improved somewhat since then. In the nine months ended March, 1922. Europe supplied 32.7 per cent. of our imports and received 54.4 percent of our exports; Europe is still our best customer, but our imports from European countries are both absolutely and relatively smaller than eight years ago.

"The European market is likewise of great importance for our competitors. European countries took 76 per cent. of the German exports in 1913, 82.4 per cent. in 1920, and 79.6 per cent. in 1921. The trade of the United Kingdom with Russia and Germany in 1913 was valued at \$1,016,491,000, representing 14.9 per cent., or more than one-seventh, of the total British trade. In 1921 British trade

with Russia, Finland, the Baltic Republics, Poland, Danzig, Germany and Luxembourg was only \$359,539,000 or 4.9 per cent. of the total, and 30 per cent. of that trade was represented by transit goods and re-exports of foreign merchandise. These figures explain why the British merchants lay so much stress on the economic rehabilitation of Russia."

In order of importance in 1921 the percentage of total trade of the twenty countries converted into dollars at average rate of exchange was as follows in 1921, 1920 and 1913:

TWENTY COUNTRIES

	1921	1920	1913	1913 P.C.
United Kingdom	23.08	23.80	21.62	107
United States....	22.11	25.14	13.54	164
France	10.63	10.06	9.35	114
Germany	6.07	5.43	15.72	39
Canada	4.57	4.39	3.55	129
Japan	4.37	4.02	2.15	204
British India.....	4.17	4.45	4.37	96
Belgium	4.05	2.99	5.05	80
Netherlands	3.84	3.23	8.87	43
Argentina	3.02	3.14	3.10	97
Australia	2.97	1.94	2.34	127
Nine Other Countries	11.12	11.41	10.34	
	100.00	100.00	100.00	

BRITISH DOMINIONS AND U. K.

Canada	4.57	4.39	3.55	129
British India.....	4.17	4.45	4.37	96
Australia	2.97	1.94	2.34	127
New Zealand.....	1.06	0.73	0.66	161
Egypt	1.22	1.34	0.94	131
Union of South Africa	0.94	0.96	1.04	91
	14.93	13.81	12.90	
United Kingdom	23.08	23.80	21.62	107
	38.01	37.61	34.52	

It is interesting to note from this chart the wonderful showing of the United Kingdom, which in 1913 had 21.62 per cent. of the world's trade, and in 1920 23.80 per cent., and in 1921 23.08 per cent.

The trade of the United States, which was only 13.50 per cent. of the total in 1913, increased in 1920 to 25.14 per cent., but dropped back in 1921 to 22.11 per cent.

France also shows an increase in its portion of the world's trade from 9.35 in 1913 to 10.06 in 1920, and again in 1921, when it was 10.63 of the total. The trade of Germany, on the other hand, fell off from 15.72 per cent. in 1913 to 5.43 per cent. in 1920, but increased slightly in 1921 to 6.07. The trade of the Netherlands fell off proportionately as its trade is normally made up in large part from the trade of Germany which passes through it. Japan shows a slightly better condition both in 1920 and 1921.

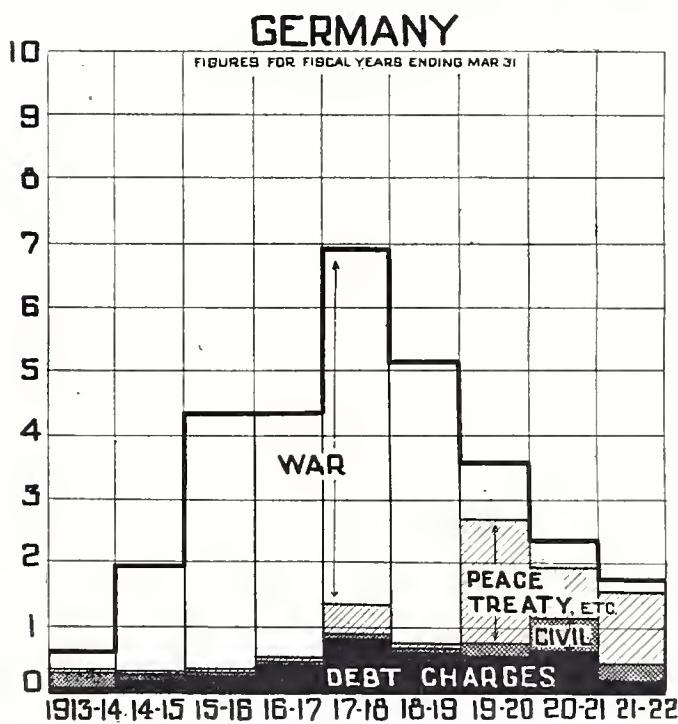
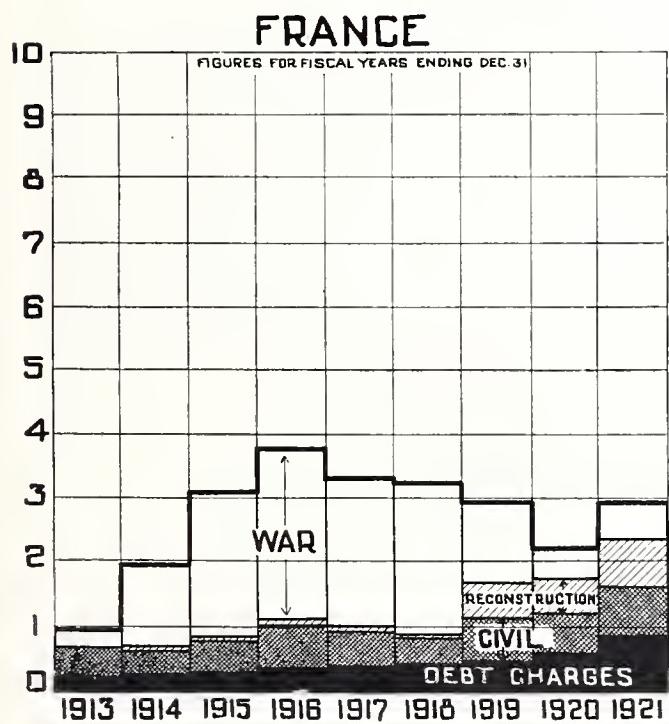
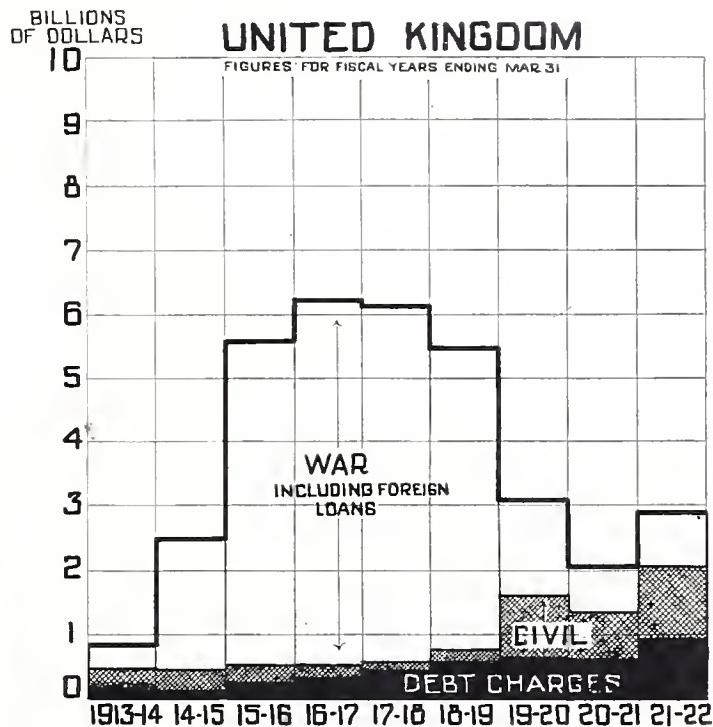
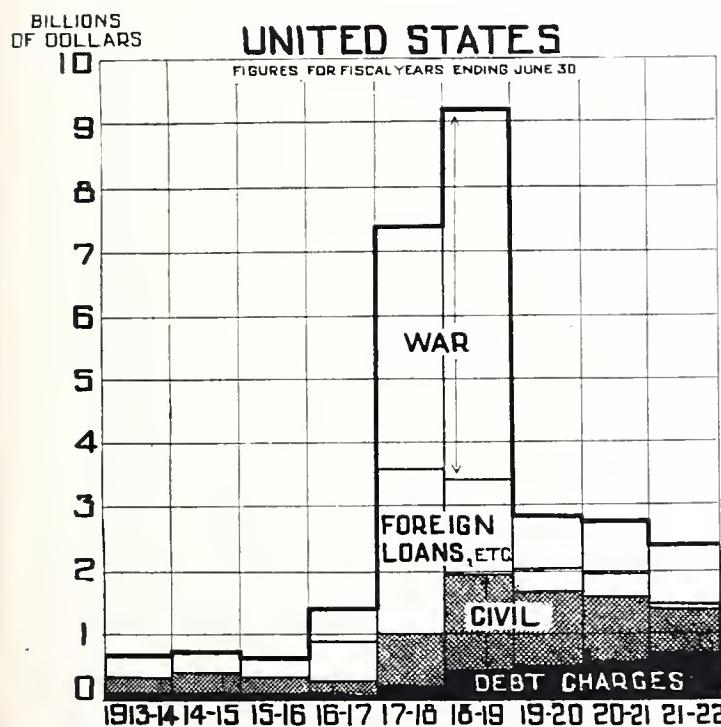
The dependence of the United States upon its foreign trade to take care of its surplus capacity to produce and manufacture is so great, that in addition, from the standpoint of our need to humanity, is the very positive need in America of the prompt restoration of the buying power of Europe.

GOVERNMENT EXPENDITURES - ADJUSTED

UNITED STATES AND FOREIGN COUNTRIES

1913 PRICE BASIS

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
 NEW YORK CITY



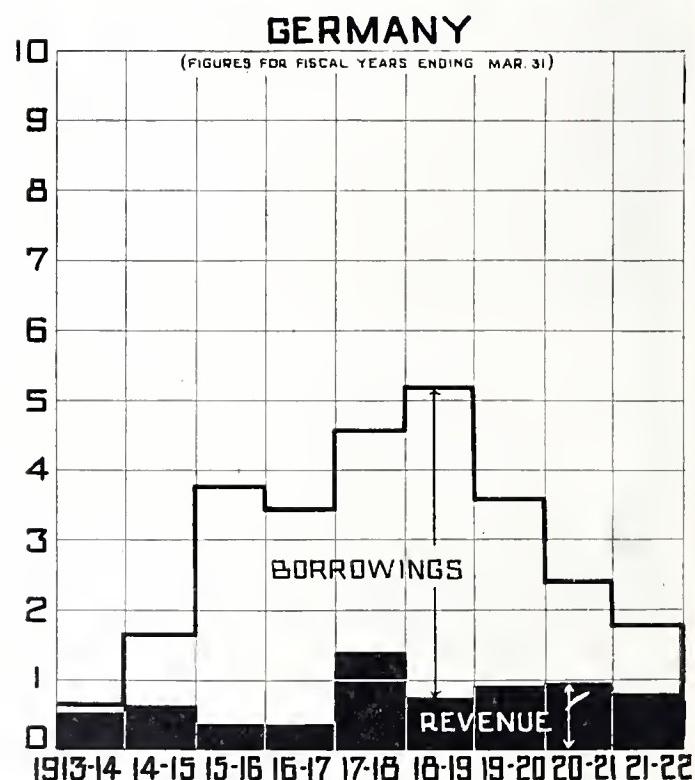
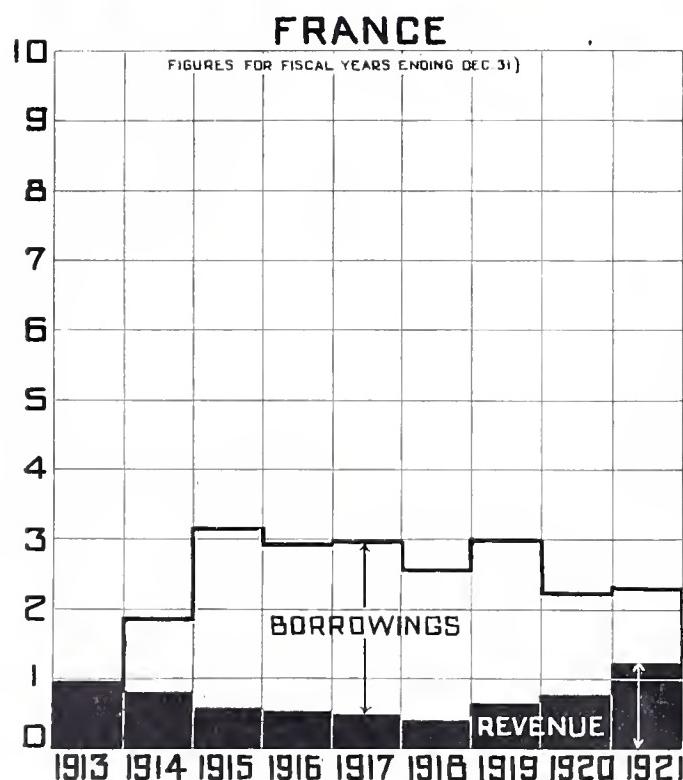
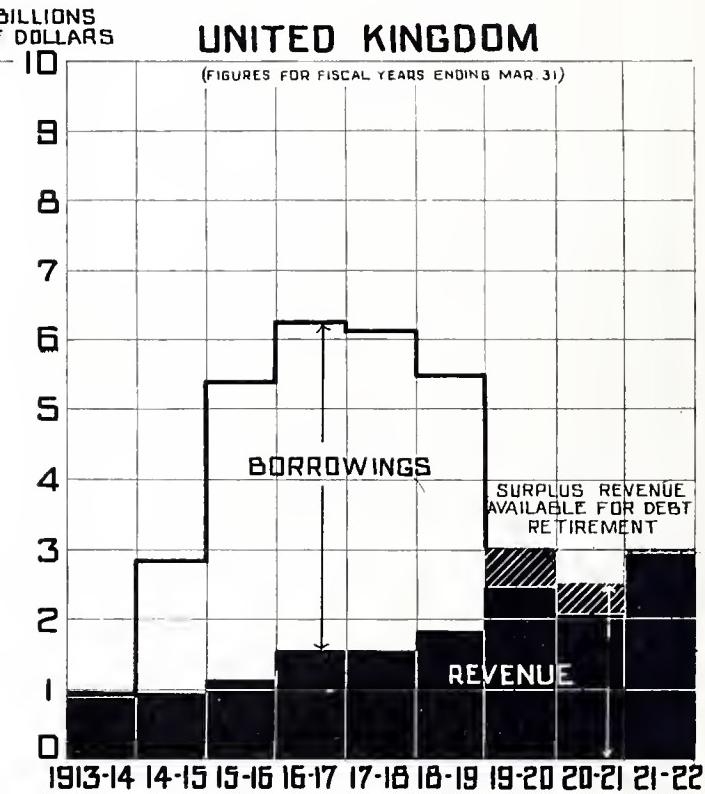
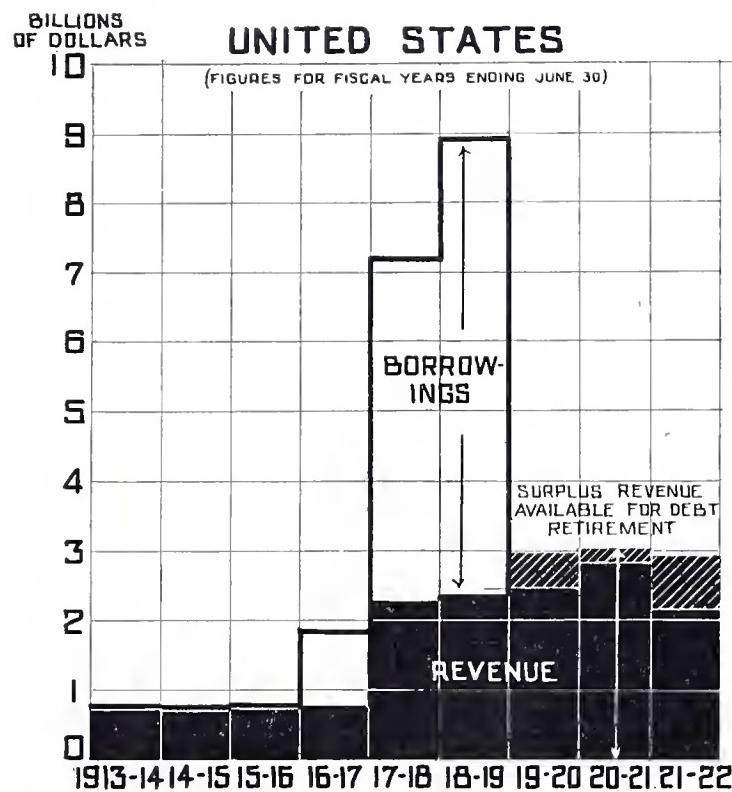
(SOURCE - BANKERS TRUST COMPANY)

GOVERNMENT RECEIPTS - ADJUSTED

UNITED STATES AND FOREIGN COUNTRIES

1913 PRICE BASIS

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
 NEW YORK CITY



(SOURCE. BANKERS TRUST COMPANY)

FOREIGN TRADE - 20 COUNTRIES

DISTRIBUTION OF TOTAL EXPORTS AND IMPORTS

REPRESENTING 76.3% OF TOTAL WORLD TRADE IN 1913

COPYRIGHTED BY

NATIONAL INDUSTRIAL CONFERENCE BOARD
NEW YORK CITY

100%

100%

100%



1913



1920



1921

(SOURCE: UNITED STATES DEPT. OF COMMERCE)

Chart 10—Foreign Trade—United States Geographical Distribution

The first chart on our own foreign trade (No. 10) covers that of the United States by grand divisions. Particular attention is called to the growing increase in imports among European countries. It is very doubtful if the people of the United States realize the tremendous proportion of our exports which go to Europe, which is shown so clearly in the chart.

The relative importance of Europe is found to be going down, however, because of her loss of buying power, and whereas 55 per cent. of our total trade was formerly with Europe, it was in 1921 under 45 per cent. The North American group, which was next in importance before the war, and produced about 24 per cent. of our total trade, has gone up to nearly 27 per cent. Trade with the South American Group has held unchanged at 8 per cent. of our total trade. On the other hand, our Asiatic and oceanic trade has considerably increased, going up from about 12 per cent. of our total trade to nearly 19 per cent.

The decrease in value of exports and imports since 1920 was due to decrease in prices as well as decrease in actual volume.

Chart 11—Value of Exports and Imports—United States, 1914-1922

This chart (No. 11) shows that since August, 1914, exports have at all times exceeded imports.

The total value of net exports of merchandise from July, 1914, to June, 1922, inclusive, was about twenty-one billions of dollars. This amount has been paid for by loans of the United States government to foreign governments, by importation of specie (gold and silver), and by the so-called invisible items—money sent home by foreigners in the United States, money spent by American tourists abroad, payments for shipping on foreign vessels, etc. The balance which has not been paid for—the “Unfunded Balance”—has been roughly estimated by the Federal Reserve Board as approximately \$3,400,000,000 on January 1, 1922, but Professor Williams of the Harvard Economic Service believes this to be too high an estimate. He places the amount due on balance for 1921 as under one billion dollars.

In this chart it is interesting to note the general parallel trend, which shows as it does the tremendous force which the necessity for our exports exercised to build up our imports in spite of the

almost insurmountable difficulties with which the nations of Europe were confronted in producing a surplus for export. This was also shown in the previous chart. The effect upon foreign trade of the crash in prices of commodities in 1920 is clearly shown through an almost perpendicular drop in exports and imports during a period of a few months.

The history of the war and its effects are wonderfully shown in the portion of the chart covering “net exports and imports.” It first shows the demand of the Allies for goods before the United States entered the war, together with the increasing difficulty which they had in making payment for such imports with their own exports until, in spite of their necessity, their imports from us dropped just before the United States declared war, after which there was an immediate increase in our exports made possible through the loans which we made the Allies. After the armistice came the great boom in world trade, together with vast purchases of food and raw material by European countries required because of the devastation of war until the peak of their ability to buy on credit was reached in 1919. Then for a time they could only buy as they could find goods to pay for their imports, which brought the net export total down immediately, until the break in commodity prices in 1920 reduced the total values of both exports and imports, resulting, of course, in a much smaller net export total. The inertia of our export trade was such that it continued for a time after 1920 in larger value than our imports, which were immediately curtailed because of the lack of markets which developed in this country. This condition naturally lasted only for a short time, and the balance of trade in favor of the United States immediately worked to lower levels until now it is back to pre-war figures.

Chart 12—Values of European Currencies

One of the principal difficulties against which foreign trade has had to contend is the fluctuating foreign exchanges. These fluctuations have been caused by unbalanced foreign trade and inflation, and in order to obtain a picture of inflation as it exists in Europe, a chart has been prepared in the form of a map of Europe in which the countries whose currencies at 75 per cent. or over of the mint part are in white, those between 1 per cent. and 75 per cent. are shaded and those under 1 per cent. in black. Great Britain is the only one of the

European countries which were at war whose currency is over 75 per cent. of par, the other countries in this class being the neutral nations of Europe, with the exception of Norway, where the depreciation is a little greater. France and Italy have controlled their currency inflation extremely well, although their floating debt has increased to difficult proportions. The countries under 1 per cent. include the Central Powers, Germany and Austria and their allies, together with Poland, Roumania and Russia, and the independent countries which were formerly included within the boundaries of Russia.

The Duty of the United States

With these charts in mind a more comprehensive understanding of the economic situation of Europe and the United States, together with their trade relations, can be obtained.

A careful analysis of the economic forces which have resulted in the conditions which the charts portray carries with it the stern conviction that it is the duty of the people of the United States to identify themselves with the problems of reparations through representation upon the Reparation Commission, to use the trading force which they hold through the indebtedness of the Allies to the United States to cooperate with foreign governments in helping them control the destructive forces being exercised upon them because of the broken morale of all peoples that has resulted in unbalanced governmental budgets and inflation that would otherwise have been unnecessary, and at the proper time, at the request of the Allies, to extend such credit to Germany on a basis of priority to reparations as will enable her to balance her budget, stop inflation and help her meet reparation payments. The time for such action on the part of the United States has not yet arrived, as it is necessary for European statesmen to bring their countries into better agreement with each other and to eliminate the many needless sources of friction which still exist before credits can safely be extended. But if the United States has the will to do its part when the misunderstandings in Europe have been sufficiently cleared up to warrant and this attitude is positively made known in Europe, it will have a tremendous influence in accelerating the development of conditions which will lead with certainty to the return of normal trade between the nations, with its many blessings to all people.

FOREIGN TRADE - UNITED STATES

DISTRIBUTION BY GRAND DIVISIONS

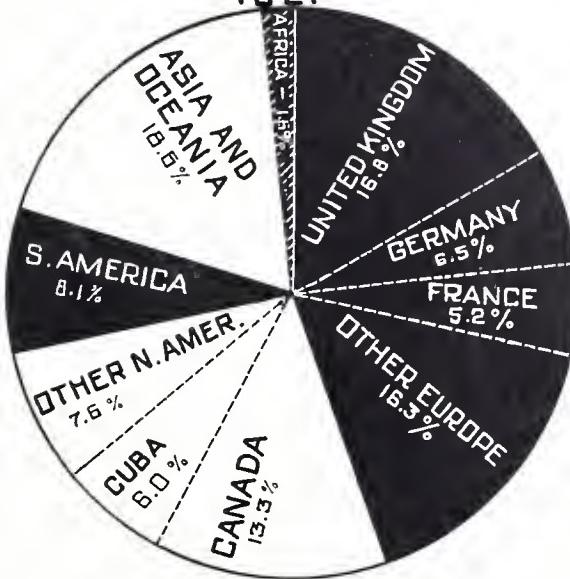
COPYRIGHTED BY
 NATIONAL INDUSTRIAL CONFERENCE BOARD
 NEW YORK CITY

TOTAL TRADE (IMPORTS AND EXPORTS)

1913



1921



IMPORTS

EUROPE

	EUROPE	NORTH AMERICA	SOUTH AMERICA	ASIA AND OCEANIA	AFRICA
1913	48.2	21.8	11.1	17.6	1.2
1917	18.7	29.5	20.3	29.0	2.5
1918	10.5	32.2	20.2	34.3	2.8
1919	19.2	29.7	17.6	30.6	2.9
1920	23.3	31.5	14.4	28.0	2.6
1921	30.5	30.1	11.8	26.0	1.6

100%

EXPORTS

EUROPE

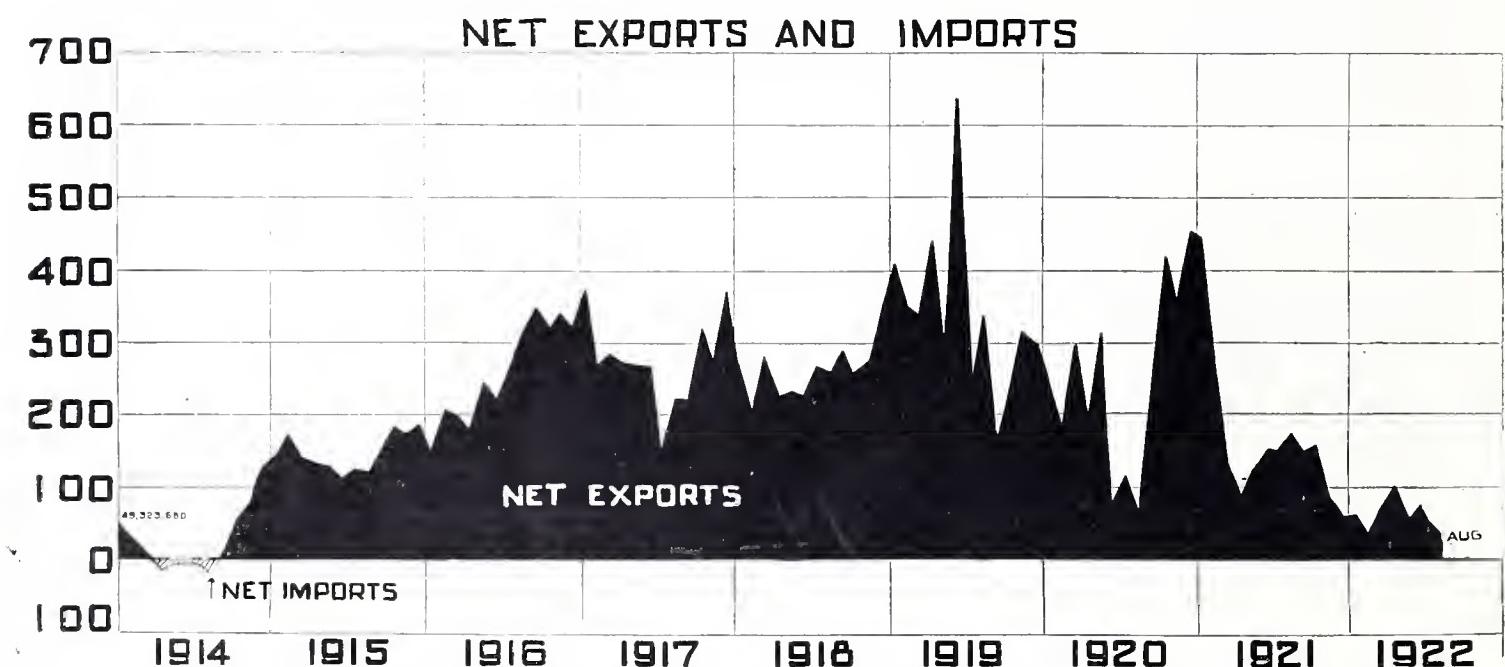
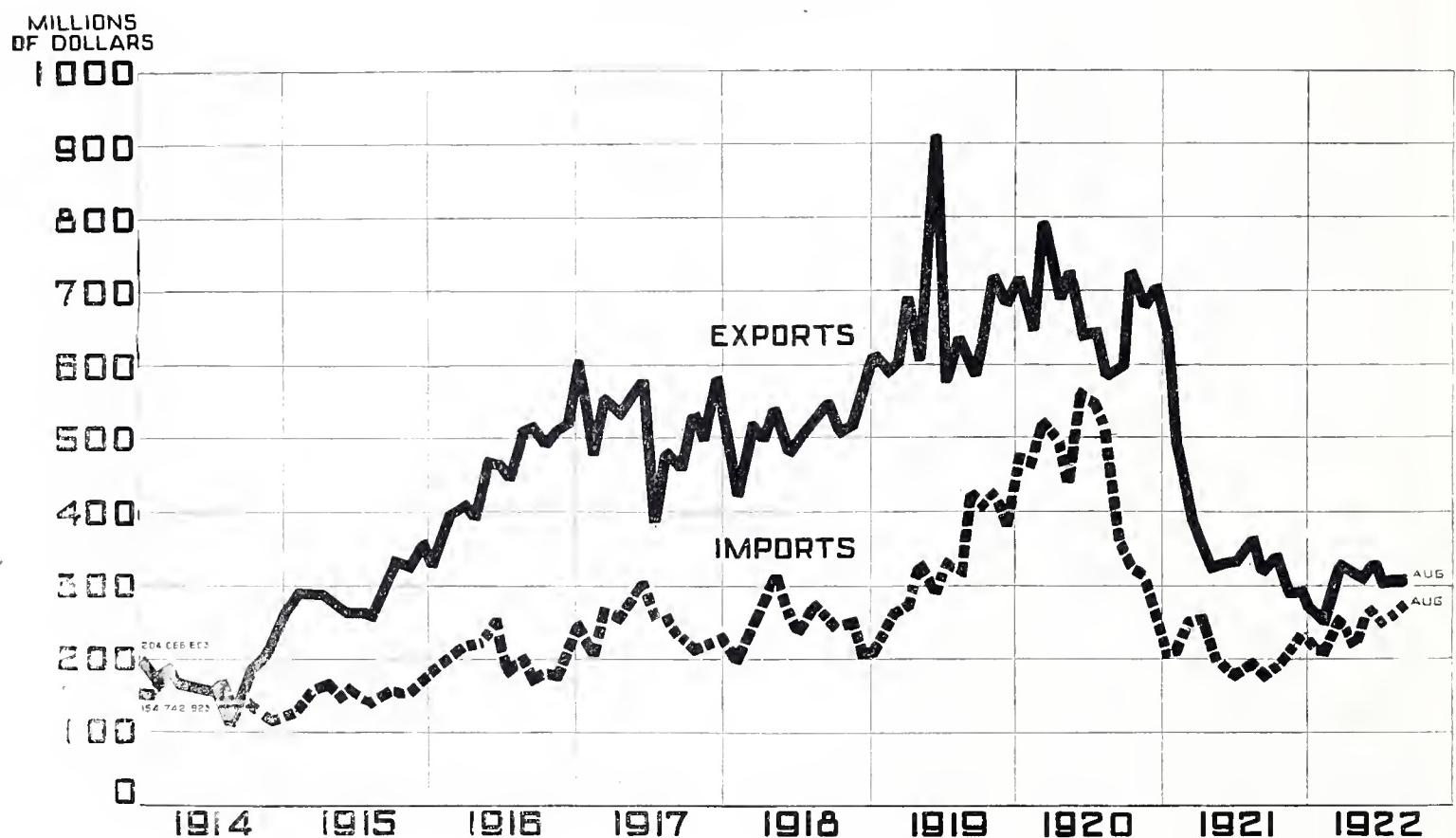
	EUROPE	NORTH AMERICA	SOUTH AMERICA	ASIA AND OCEANIA	AFRICA
1913	60.4	24.2	5.9	8.4	1.1
1917	65.2	20.2	5.0	8.8	1.5
1918	62.7	21.6	4.8	9.8	1.0
1919	65.5	16.4	5.6	11.3	1.2
1920	54.3	23.4	7.6	12.7	2.0
1921	52.7	25.2	6.1	14.4	1.6

100%

(SOURCE: UNITED STATES DEPARTMENT OF COMMERCE)

VALUE OF EXPORTS AND IMPORTS UNITED STATES

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
NEW YORK CITY



(SOURCE UNITED STATES BUREAU OF FOREIGN AND DOMESTIC COMMERCE)

October, 1932

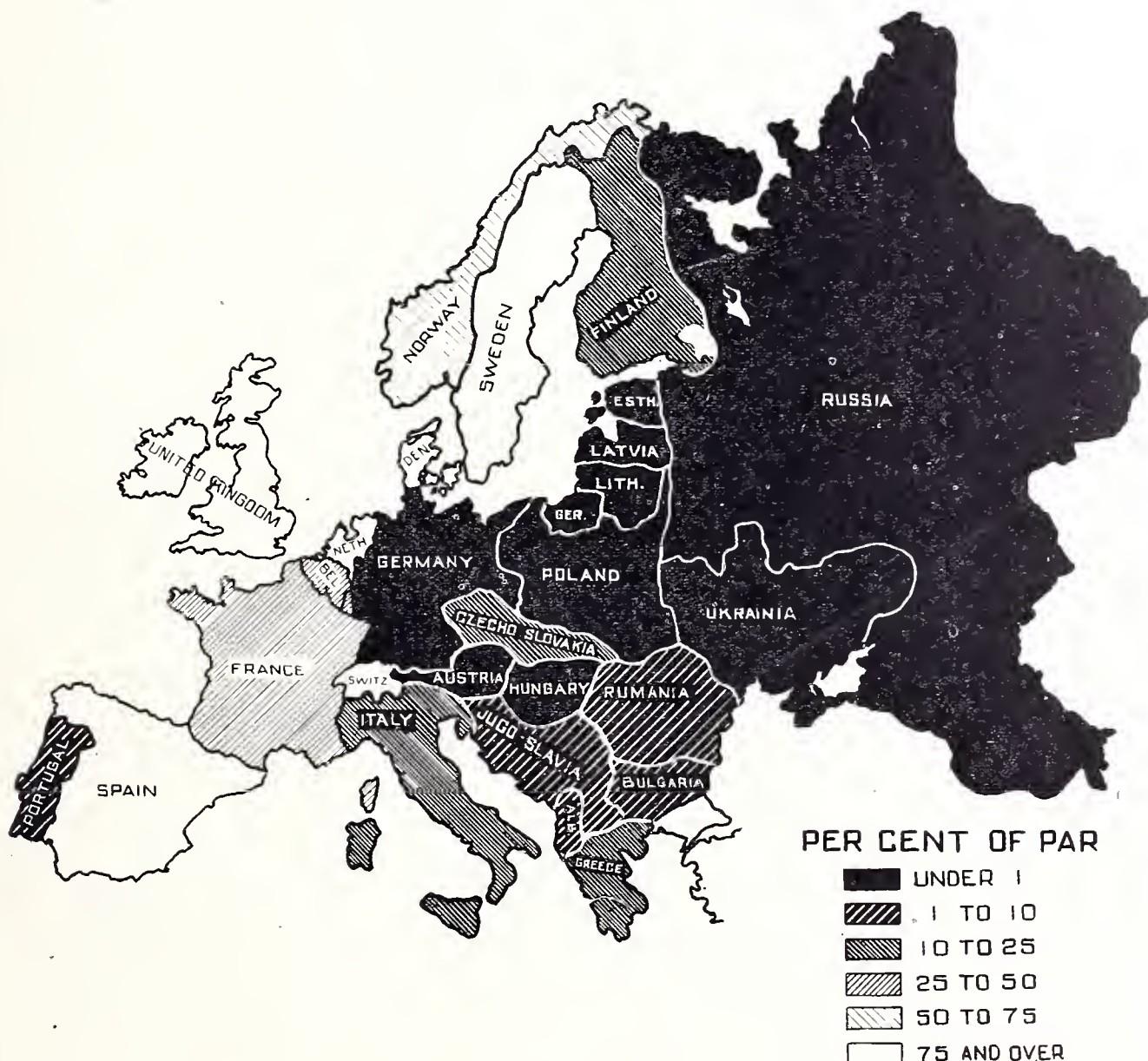
Chart No. 11

VALUES OF EUROPEAN CURRENCIES

SEPTEMBER 1-15, 1922

BASED ON NEW YORK EXCHANGE

COPYRIGHTED BY
NATIONAL INDUSTRIAL CONFERENCE BOARD
NEW YORK CITY



(SOURCE: FEDERAL RESERVE BOARD)

